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### Dubai – holiday destination or investment opportunity?



**International Trade Focus' correspondent, John Rogers, returns to Dubai after 12 years and is staggered by the rate of growth.**

Just a short 50 years ago Dubai was a small fishing village on the gulf with a strong trading tradition. It is now one of the world's most famous holiday destinations and hosts many prestigious sports events, including the Rugby World Cup Sevens next year. What 50 years ago was desert is now the home to beautiful golf courses, shopping malls with large indoor ski slopes and exceptional hotels from many of the top names in the industry. Visiting after more than a decade highlighted the staggering rate of growth that is all the more remarkable given the arid environment and more importantly the relatively small income from oil: 3.5% of GDP, compared to 50% for its larger neighbour in the UAE, Abu Dhabi.

This growth is down to the vision of the former ruler, Sheik Rashid, which took Dubai from a small

Gulf Sheikdom to where it is today. This vision is now being extended by the new ruler, Sheik Mohamed Bin Rashed, 'the CEO of Dubai', with spectacular results.

As a 'brand', Dubai has to be one of the most successful in modern business. One of the three fastest growing cities in the 90s Dubai seemed to pause for breath. However now it is full speed ahead again.

Dubai considers its 'region' to have over 3 billion residents, which helps explain the attractiveness of the Jebel Ali Duty Free zone as a logistics hub, to global players.

#### Jebel Ali Duty Free zone

What is remarkable has been the scope of the vision, epic by any measure, within a traditionally conservative region. The setting up of the Jebel Ali Free Zone was a very far sighted move by Sheik Rashid, creating the world's largest man-made port. Seen at the time as a risky move, the port is currently undergoing another expansion to make it three times as big as the original. The port is now the eighth largest container port in the world

and there appears to be little end in sight to its expansion.

The duty free zone started as a business vision which has evolved into very sound economics. Companies can set up there in a duty free environment to service the region which is large, particularly when viewed from a two hour flight perspective. Most of the companies there are global brands with the free zone used as a logistics hub. Some of the companies add value in some way to their product lines, usually customising for the regional market. The business environment is outstanding in the free zone for any company setting up there, whether measured by the tax regime all the way through to the readily available labour market. Being able to set up a company in 12 hours has to be impressive by any measure. The power of the vision is that the benefits to Dubai are off the balance sheet, but very tangible. The labour used by the company lives, and therefore spends, in Dubai. Being in the centre of the world's largest oil based economies as a logistics hub has been a major reason for the continued success of the free zone.

I met with Fredrik Lindblad, Business Manager of GAC logistics services. He indicated that GAC were benefiting from the ideal location for a sophisticated logistics firm. With such a pleasant place to live, staff costs and staff turnover were low.

With the main attraction of the free zone being the rapid access to the regional market, Dubai has just opened Jebel Ali International, the world's largest airport, just 15 kilometres from the free zone. To keep Dubai ahead of potential competitors in the region, the new airport has six runways. Not content with this dramatic move it is now the intention to build Jebel Ali Airport City with a focus on a slightly different client base to the current capital. Emirates will be starting a

low cost airline based at the new airport to service this new hub.

#### Emirates

Across Dubai there are other initiatives which have been equally bold, not the least of which is Emirates Airline which has developed rapidly to become the world's seventh largest airline, if measured in scheduled passenger kilometres.

At the heart of the Dubai business model is the ability to attract investment based on real estate. With the current difficulties in the real estate markets in the US and Europe it might be prudent to question whether the real estate market can be sustained in Dubai. As far as this correspondent can see, the answer is yes, but with a proviso over the potential problems related to infrastructure mentioned later.

Specifically on real estate itself, Dubai has several projects ongoing which are solely residential sales. The highest profile of these is the Palm, the world's largest man-made island built just off the coast of Dubai. Several high profile personalities have been linked with this project including David Beckham.

#### Infrastructure

With such a dramatic expansion, predicted to reach a population of 2 million by 2010, the infrastructure could be the brake on the expansion. The traffic in Dubai is becoming increasingly reminiscent of the gridlock familiar to most big cities. In a desert community where water and air conditioning are mandatory, the property boom is challenging the utilities to keep pace.

This is well recognised, with Dubai Municipality spending telephone numbers on road and transport projects as well as huge power and water plants.

# Why Dubai?



**Can any global business afford not to have a foothold in Dubai? Here Dubai Tourism and Commerce remind us of the growing importance of the Middle East's trading hub.**

Dubai is a world-class business and tourism destination. It boasts a strong and diverse economy, with progressive, forward-thinking commercial centres across all sectors of the economy, and booming tourism making it the ultimate place to invest and visit.

Politically stable, Dubai is strategically located between the East and the West, providing a base for successful commercial operations. The emirate's progressive and state-of-the-art infrastructure offers investors and businesses excellent facilities which are among the best in the world. Dubai's telecom and internet links, ports, roads and airport are the most superior in the region. Ranking as one of the world's busiest, Dubai International Airport (DIA) links to over 200 destinations with 118 airlines, accounting for over 27% of all passenger and aircraft movement in the region and making the emirate second only to Tokyo in daily transit passenger numbers.

DIA has grown at an average of over 15% per year since 2002 and is now ranked in the top 10 of the world's busiest airports compared to 30th position in 2002. To further fuel this rapid growth £2.2 billion is being invested in the Dubai International Airport Expansion

Programme which includes a cargo terminal to handle five million tons of freight. In addition to the DIA expansion is the plan to develop Al Maktoum International Airport, which will accommodate 120 million passengers and 12 million tons of cargo per year and will be one of the world's largest airports. The vast development will cover 140 square kilometres and will also include several smaller "cities" to cater for the needs of financial, industrial, service and tourism sectors connected to the aviation industry. The new airport will be located 40kms from DIA in Jebel Ali adjacent to Jebel Ali Port and Free Zone.

The emirate is served by over 125 shipping lines through Dubai's twin terminals of Port Rashid and Jebel Ali Port, the largest man-made port in the world and ranked in the world's top 15 in terms of container throughput.

Dubai offers a compelling combination of a highly developed and ultra-modern business infrastructure and a low-cost operating environment. These aspects are very attractive to the manufacturing industry and as a result, the emirate's manufacturing sector grew by 15% in 2007, according to the UAE's Ministry of Economy.

Dubai today boasts a wide variety

of state-of-the-art facilities covering everything from desalination plants and power stations, to port and airport developments, highway networks and social and leisure amenities. Coupled with the region's increasingly diversified services sector, this ensures that Dubai offers incoming companies all the efficiencies of a leading global player.

At the same time, the cost of doing business is highly competitive. The absence of any corporate or income taxes is a key factor in this. But equally, labour (largely expatriate), energy and accommodation costs compare favourably with many international business centres.

The diversification of Dubai's economy has been instrumental in its strong economic performance. Recent figures have revealed that the emirate's tourism sector is growing by close to 14% annually and accounts for more than 30% of the emirate's annual GDP. It hails possibly the world's highest-profile development, The Palm islands. In 2007, Dubai saw 799,532 visitors from the UK and Ireland, an increase of more than 9% compared to 2006, and the emirate is experiencing phenomenal growth, on track to welcoming 15 million global visitors by 2015.

## Setting up business:

Setting up business in Dubai couldn't be easier. In most cases the first step is to obtain approval for a licence from the relevant ministry. Foreign investors are permitted to hold 49% equity ownership in a UAE established company. However there are exceptions to this rule.

There are many benefits to setting

up in Dubai including no foreign-exchange controls and no trade barriers. Furthermore, there is 100% repatriation of capital and profits and 5% customs duties tariff.

Ever more international companies are recognising Dubai as an ideal location for developing business in the Middle East, made possible by the development of free zones which are contributing to a well-balanced and diversified economy, setting Dubai on target to be a global market leader awash with opportunities.

Establishing a business entity in one of the emirate's free zones can be an attractive option for foreign investors. A large number of companies have been attracted to these zones where their operations are treated as offshore or outside the UAE. Other major advantages and incentives for businesses setting up in a free zone are entitlement to absolute foreign ownership of the enterprise, 100% import and export tax exemptions, 100%

repatriation of capital and profits, no corporate taxes for 5 years, no personal income taxes, assistance with administration and labour recruitment, and additional support services, such as sponsorship and housing. There are also efficient transport and distribution facilities and no custom duties. In addition to this, the resulting cluster economies and their micro-economic frameworks formed in

the free zones lead to beneficial conditions for labour pooling, supplying and buying.

Choosing a location in close proximity to other businesses operating in the same sector increases each individual firm's output and profit due to potential economies of scale. Currently there are some 28 free zones in Dubai across a broad spectrum of sectors, including



Jebel Ali Free Zone, which specialises in manufacturing and re-export and has created a thriving business community. There is also the Dubai Airport Free Zone which is home to

region's capital market, offering world-class regulations and standards to investors and issuers of capital. Dubai Healthcare City provides a self-regulated environment for high-quality healthcare,

Internet City has one of the largest IT infrastructures in the region designed to support the development of ICT companies in the emirate.

In addition to the free zone incentives, setting up business in Dubai also benefits from an open market, no exchange controls, quotas or trade barriers in a prosperous market located at the heart of one of the world's richest regions. Finally, if businesses needed any further incentive it offers a high standard of living and superb quality of life.

[dubaitourism.ae](http://dubaitourism.ae)



Dubai's export performance is not being dented by the downturn in global trade according to recent figures released by the Dubai Chamber of Commerce and Industry (DCCI). In the first half of 2008 the value of exports/re-exports increased by 50% year on year to £15 billion.

some of the world's leading high-tech and luxury goods companies such as Chanel, Dell, Rolex and Rolls Royce. The Dubai International Financial Centre is the

medical education and research while Dubai Knowledge Village provides a centre of excellence for innovation and the emirate's learning community. And, Dubai

## Islamic Finance Conference



Reuters London Docklands Conference Centre was the venue for a busy, interactive seminar on the opportunities for UK organisations in Islamic Finance, organised by March Publishing.

Delegates were welcomed by David Craig, Chief Strategy Officer of Thomson Reuters who appealed to the City of London and the UK as a whole, to embrace the opportunities afforded by Islamic Finance, reminding the audience that the UK

has five wholly Islamic banks and that 23 UK banks deal in Islamic Finance to some level. This is more than four times that of any other country in Western Europe.

The global market for Islamic financial services as measured by Sharia compliant assets reached \$531bn in 2006 having grown at more than 10% per annum for a decade.

David Lewis, The Rt Hon Lord Mayor of London in his keynote address pointed out that many

large Muslim countries, like Nigeria, have not developed Islamic finance products. The UK, ranks ninth in the world for Sharia compliant assets.

Duncan McKenzie of International Financial Services London (IFSL) presented an overview of the Islamic Finance market pointing out how Standard & Poor's has estimated that the potential value could be \$4 trillion, more than seven times its current value.

[marchpublishing.co.uk/ifc.html](http://marchpublishing.co.uk/ifc.html)

## Muslims positive about international trade

Contrary to generally held beliefs in the West, Muslims seem to have a positive attitude to international trade according to a research study undertaken by WorldPublicOpinion.org and managed by the Program on International Policy Attitudes (PIPA) at the University of Maryland.

The study was conducted amongst 5,216 respondents in six nations with predominantly Muslim populations including Egypt, Turkey, Azerbaijan, Iran, Indonesia, and the Palestinian Territories, plus the Muslim population of Nigeria.

Majorities in five of six nations see international trade as good for their countries: Nigerian Muslims being the only exception (37% good,

59% bad). Overall 59% see trade as beneficial to their respective countries' companies.

The views expressed on globalisation were also generally positive: Approval is highest among Egyptians and Nigerian Muslims (79% and 78% saying mostly good, respectively). Sixty-three percent of Azerbaijanis, 61% of both Iranians and Indonesians, and 58% of Palestinians see globalisation as mostly good. Surprisingly given its desire to become a member of the EU, Turkey is the only country whose support does not reach a majority, 39%. On average across all seven areas, 63% say that globalisation is good for their own countries. Only 25% think it is mostly bad.

[worldpublicopinion.org](http://worldpublicopinion.org)